SUBSCRIPTION ENTREPRENEUR

HOSTED BY ERIC TURNNESSEN, FOUNDER OF membermouse™

How To Build A Forever Transaction With Your Members
with Robbie Kellman Baxter

“A lot of companies are very focused on their product instead of being focused on the outcome they're delivering for their customer. The closer you can align the way you package your value to the goal that your customer has, the more likely your customer is to trust you for the long term. Which – I think – is what we all want as business owners is the customer comes and they stay and they trust you and they prefer you and that maximizes lifetime customer value, of course. But, it also allows you to continue to evolve your offerings to stay relevant over time.”

INTRO:

You're listening to Robbie Kellman Baxter - my very special guest on today's episode of The Subscription Entrepreneur Podcast.

If you've spent any amount of time in the membership and subscription world, chances are you've encountered Robbie and her work at least once.

She's a leading expert on memberships and the best-selling author of two landmark books: The Membership Economy and The Forever Transaction.

This is the second time Robbie has come on our show and I am so grateful for the opportunity to share this encore episode with you.

In our conversation today, we explore the intricacies of a trait that can be found at the heart of the world's most successful membership businesses. It's what Robbie calls a forever transaction built around a forever promise.

Our discussion is grounded in real-life examples and you'll see how businesses like Oral B and the Miami Heat converted one-time buyers into loyal members for life.

And hey... if a toothbrush company can create a forever transaction, so can you!

So, if you're ready to discover how to design a membership so compelling that your customers will never want to leave... this episode is for you.

As always, I'm your host Eric Turnnessen and this is Episode 157 of The Subscription Entrepreneur Podcast.

Eric: Welcome to the show, Robbie.

Robbie: Thanks so much for having me.

Eric: Yeah, it's my pleasure. Thank you so much for coming back on. You and I spoke in April of 2019 where we did an episode back then. I want to say congratulations because your book that we were talking about at the time we had our last interview was in the works and that book, *The Forever Transaction: How to Build A Subscription Model So, Compelling, Your Customers Will Never Want To Leave*, that book came out in April of this year. I recall when we were talking last time, some of the things that were coming up is there was some stresses of not knowing if it's going to get finished, going back and forth through your publisher and it's just interesting now we have the perspective of looking back and it's actually happened. So, how did that all unfold, the rest of that process?

Robbie: Yeah, it's so funny because I think April of last year was at peak stress time where I was really trying to figure out how to put together the book and I was restructuring it, trying to figure out what is the most useful way to put it together and how can I come up with something that is free standing but also not repetitive of the first book? So, I think that was a peak stress moment. It all ended up coming together which I think is very much part of the writer's process. It's darkest just before the dawn, I guess you might say.

Eric: Right. I've never written a book or gone through the process of publishing but you talked about how you were moving things around. How much of the process is actually the writing and how much of it is the editorial and the nuances around publishing?

Robbie: That's a really good question. I feel like the actual writing is only a small part of a writing a nonfiction book. A lot of it is research, a lot of it is structural. So, there's a part where you're like, "What is this book going to be like? What's the story arc, the narrative arc, how am I going to structure it?" Then there's all the research to get the information that you want to put in the book, then there's the writing where you get it down on paper or digitally and then there's, you talked about the editorial process where you clean it up, you smooth the edges. I looked at it through probably 10 or 15 different lenses to look for anything extraneous, anything that didn't fit, anything that didn't make sense.

And that took a big chunk of time towards the end. So, the actual like what people think of when they think of writing a book, the sitting quietly at your desk and typing, is a pretty small part. And then also there's like the whole trying to sell it to a publisher and marketing it after the book is done. So, the actual writing is actually a very small part of the business book process.

Eric: The romanticizing of it. We probably do that with a lot of things and I think some of those things we'll get into in our talk today because we're going to be talking a lot about subscription businesses and people across the board think they're a great idea just like a lot of people think, "oh, it would be a great idea for me write a book. I'd love to write a book." And then they visualize whatever romantic idea they have around it but there's a lot more to it. We're definitely going to get into that. I kind of like jumped ahead in our conversation, just reconnecting with you after this time. But for those people who haven't heard our first episode together, can we give people a quick into to who you are, your background, and what you do?

Robbie: Sure. I'm a subject matter expert on membership models and subscription pricing. And I've been focused on that area for almost 20 years starting with... I don't want to say by chance, but when I was on maternity leave with my second child, I got laid off. She's 19 now and I decided I was going to become a consultant and have greater control over my own life and my own career and in the beginning I was just a generalist, a strategy consultant with an emphasis on tech and marketing. But I knew I had to find an area of specialty. And my fifth client was Netflix and I fell in love with their business model. And as I was falling in love with it, a lot of other people were too. And I started getting more requests to help other companies and other entrepreneurs be like Netflix. And I started to tease that apart and build out what's the replicable framework, what are the parts that are the same across many organizations, what's unique to different industries? And I haven't looked back since.

So, I've since written two books that you referenced, The Forever Transaction, which make out this past April. And its predecessor, The Membership Economy which came out March 2015 where I was really just putting a stake in the ground and saying, "Membership is a massive, massive trend that can positively influence virtually any industry, any business, any organization and here's why you should consider it for your organization." That's what I've been doing for the last several years.

Eric: Yeah. In our first conversation together, we focused a lot about the content of that book, and actually it's been super helpful for me, we covered a lot about pricing and I do live sessions for my customers, multiple times a month. And oftentimes to be expected, people ask about pricing, how do I price things, et cetera. And I'm so grateful every time that happens that I have this conversation recorded that we had because literally any time somebody asks me that, I'm like, "It's a big topic. Go listen to this."

Robbie: Oh wow.

Eric: So, I've been really grateful to have that resource. So, if people listening to this now are also interested in learning more about your thoughts on membership and pricing, definitely listen to the episode and grab the book for more in depth things. So, when we talked that first time, we talked about pricing for memberships and part of this covered how someone can know if their idea for a business is actually suited for the recurring revenue model or not. And at that time, you mentioned that the membership or subscription pricing model is best for business who can offer a forever promise to customers with a forever challenge. And this is when you kind of introduced that this is going to be the main topic of the book that just came out in April. And so, I'd like to dive deeper into this idea of these forever transaction. Can you define what this is and give a few examples of companies who embody this concept?

Robbie: Yeah. A forever transaction is that relationship that you have with certain customers where they actually take off their consumer hat and put on a member hat and they stop looking for alternatives. And they say to themselves, "This organization or this company, I'm going to trust them to solve my problem or help me achieve my goal on an ongoing basis. So, for example, Amazon, which promises us the easiest way to buy what we want and 20 years ago or 30 years ago, that was books only and they came up with Amazon Prime which took away one of the biggest stressors of people shopping through eCommerce sites which was the shipping costs and then they've become a purveyor not just of books but everything.

Not just on their own but through their retail partners and they've continued to layer in more and more value and make it easier and easier till we kind of joke that one day you're just going to be thinking about something that you wish you had and it's going to appear in your hand or your closet. And then you're going to say, "That's not what I meant." And it will disappear. And they're not quite there but they are very close to really solving that problem on an ongoing basis and many, many people go to Amazon first or only when they're shopping.

Eric: Especially given the situation in the world at this point. I mean, it's getting a little bit back to normal but when you couldn't go anywhere, Amazon was... and other businesses like that, where you could get curbside delivery and stuff like that were really benefiting from the situation.

Robbie: Yeah. And what was really interesting to me is organizations that treated their customers like members and particularly those that had a digital connection, those businesses have proven to be the most resilient and responses during this COVID time.

Eric: Yep. Some other companies that you reference in your book may not be as familiar to people or as obvious to people why we would look at them and say, "Oh, they fall into this situation where customers are more like members." Some of those are OralB, K&L Wines, and Fit, Fab, Fun. Can you take one or two of these and dive into like maybe give us a little bit of context of how they fall into this concept of what you call forever transaction?

Robbie: Yeah, well so OralB, toothbrush company, I have an OralB electric toothbrush, you can be in the toothbrush business or you can be in the health mouth business. The forever promise that I want and I think a lot of people want is not to have a toothbrush or to have an awesome toothbrush, but to have a healthy mouth. And OralB has recently begun incorporating an app with the toothbrush so that you can track how long you're brushing each day and whether you're preferring, let's say, one side of your mouth or the other side or you're pushing too hard or you're not hitting certain parts of the tooth and give you feedback. And it'll also tell you when you need a new brush head. But the goal is, that forever promise is, help me be healthy. Help me have a healthy mouth.

It's not give me a good toothbrush. And a lot of companies are very focused on their product instead of being focused on the outcome they're delivering for their customer. And the closer you can align the way you package your value to the goal that your customer has, the more likely your customer is to trust you for the long term which, I think, is what we all want as business owners is the customer comes and they stay and they trust you and they prefer you and that maximizes lifetime customer value, of course. But it also allows you to continue to evolve your offerings to stay relevant over time.

Eric: Well easier said than done, right? Because what you're talking about is basically we can all have a vision, a lot of us may feel like inventors at times and have an idea for a product and then we work really hard to create that product. And then it's like, oh, we hope that's kind of the Field of Dreams situation where you build it and they will come. That usually doesn't happen. So, what you're talking about is it is about the product but it's also like, "Okay, you have the product, that's a foundational step. But more importantly, how does this product fit into somebody's life? How can it influence an outcome? How can you build a relationship with this product as a cornerstone of it?" And it seems like in just the example you gave about OralB, them developing an app, and other things like this, it seems like you would need consultants to maybe figure out the best approach like, "How can we go about doing this process and figuring out what is the care key relationship we can build with our customers?"

Robbie: Yeah. So, I'm a consultant and I love to help entrepreneurs with their membership and subscription models for sure, but you don't need a consultant. I actually think it's pretty straightforward. What you need to do, especially if you're a going concern and you have existing customers already, is try and put yourself in their shoes and say, "What is the goal that the customer had? The bigger goal that drove them to come see me in the first place or to buy my product?" And this is where you get into some segmentation because different people might come to you for different reasons. So, here's an example. I worked in the bicycle industry with the BPSA, the bicycle product supplier's association. And we were looking at the future of bike sales. And if you look at who buys a bike, the majority of bikes are sold to, and I don't know if this is still true, but at the time white men between, I think, 40 and 65, who generally had multiple, very, very specialized bikes.

"Here's my bike for road riding. Here's my bike for dirt biking. Here's my bike for whatever other... rainy days and sunny days and here's all the different wheels that I use and I'm subbing them out." Now, there are a couple of issues. One of them is that a growth area was people who were using bikes for transportation who want a totally different kind of bike. Also people who want bikes for family outings. Moms who want bikes for their children. And you start to look at these different groups and the reason that they came as different and the kind of bike you'd build is different but also what you'd put around that. Are you are helping them to find bike races and bike competitions or are you helping them enjoy their bike on the weekend and have family time? What kind of maps are you going to give them, what kind of repair classes are you going to offer for them? It's really different depending on who you're optimizing for and what promise you're making.

Eric: And while you were talking about that, I was getting visuals in my mind of product catalogs where you see they sometimes appear cheesy because you're like, "Okay, they're hitting all these things in the image." You're talking about the mom who wants the bike for her kids so I'm visualizing this residential neighborhood with a dog running alongside the bike and the kids in the front basket. But that image is essentially what you're talking about like what is the image when you picture it, what is the picture, what is the marketing image that you see that can sell this to somebody?

Robbie: Yeah. And not just for today but for the foreseeable future. So, when you think about what you would add on, let's say for that mom with three kids, you might want bike safety classes. You might want kickstands and bells and baskets. Whereas for that bike enthusiast, hobbyist in his 50s, he might not want any of those things because they take the bike off balance and he wants to learn how to fix the bike himself because that's part of the fun versus the mom who might say, "You know what? I just want to be able to, if anything goes wrong with the bike, I just want to be able to drop the bike off. Or better yet, I want somebody to come to my house and just fix it because that is not part of the fun for me. The fun for me is that my kids can get to school everybody and I don't have to deal with it."

So, it starts to get you to think about what is the next offering and then maybe even how do we package ongoing value so let's say for that mom, you might say, "You buy the bike but forever and ever if it breaks down, we fix it." Or, "We're going to also offer safety classes that are included in your membership with us and we're going to offer fitness rides for your kids." And you start to see which direction you can take that relationship in and continue to drive revenue from it.

Eric: Right. It's like the sales letter, the old school sales letters on websites where you're writing to handle people's objections. And in this case, the things that you're talking about are handling people's objections but you're creating kind of more tangible, higher perceived value or offering around it. Whether it's a class, whether it's an app in the case of OralB, or something like that. And for these large companies, that's, I think where the bar is. We as consumers have come to expect that.

Robbie: Yeah. It's not just about the pitch like talking about the sales person, it's not just about the headline benefit that drives the sale at the moment of transaction. It's the engagement benefits that retain that person and deepen their relationship with the brand over time so there might be a feature that gets you to buy the bike, but what's the feature that gets you to keep coming back and keep spending money with that organization? And that's kind of the secret when you want to have an ongoing relationship, you have to provide ongoing value. And it's increasingly important to have that relationship with the customer and not have that relationship end at the moment of transaction but rather have the relationship begin that moment of transaction.

Eric: Yeah, that's really good. And you know what's really great about your book is that it has this wisdom and strategies and devices for solopreneurs but also Fortune 100 companies because you've had experience working with these people across many different areas. And so, for the particular audience that I think listens to this podcast, the chapter of your book that I think is most applicable is chapter 14 which is entitled Forever is a Long Time, Don't Take

Shortcuts. I love this chapter specifically because it really demonstrates how businesses can either keep or betray the forever promises they make to their members and the focus is really on maintaining a long-term vision in both the good times and the bad times of the business. An example of a company that betrayed its forever promise was Movie Pass. And I was wondering if you could share a bit about this and the consequences they faced?

Robbie: Yeah, Movie Pass came out with a forever promise that was almost too good to be true, right? And it was something along the lines of, I think it was 10 dollars a month, see as money movies as you want to, anywhere, any movie and everybody did the math on that. We all did the math in our heads and said, "Well, that's ridiculous. But sure, why not? That's amazing." It's interesting how quickly once you put an offer out, how quickly people accept that as the promise like, "Okay, great. That's what they're offering me forever." And the risk of a membership is when you make that forever promise, the customer assumes that they don't have to pay attention. You're going to continue to deliver on that and what happened with Movie Pass is they changed the model. They made the offer much less generous and raised the price. And it wasn't such a terrible deal, it was really a lot worse than what they offered initially and people felt cheated. They lost a huge percentage of their subscription base.

Meanwhile, organizations like AMC Theaters came up with their own subscription model and they already had a really loyal base. And they layered in some discounts as well and I think the reason that movie pass initially had such a sweet deal was they thought they were going to be able to use the aggregated data to sell that data on movie goers' preferences and what movies they saw and how long they sat and what popcorn they bought and all kinds of other things they were hoping to track. But they never got to that point. To have that kind of ambitious model where you're not going to make real money until you have this huge pile of data is you have to have really deep pockets to wait that out. And they just didn't have the resources to pursue that strategy and they didn't have the pricing to have a profitable business as a free-standing business so they just kind of feel apart.

Eric: That makes sense. While you were sharing about their story, Groupon came into my mind. And I'm not sure exactly why. I just recall hearing some stories from business owners who are just like, "People who come for Groupon are just a nightmare." There's a promise that the Groupon customer expects and when they show up to the business, the business owners feel differently about it.

Robbie: Yeah, I think that the problem with Groupon, and this is true for subscription business especially is if you get a new subscriber through Groupon who's like, "I'm getting... it's usually 10 dollars a month but I'm getting the first three months for $1.50," there's a different promise there, right? It's a promise based on $1.50. So, to go back to this Movie pass Option. If you teach me that what Movie Pass is offering is worth 10 bucks a month and then you raise it to 15 and you cut back, that's how I'm going to be anchored. If I come in through Groupon where it's cheaper than what I'm eventually going to pay, that's where I'm anchored. And so, I'm not the right kind of customer. And something that Netflix has done that has been really brilliant and incredibly disciplined is that they never invited new subscribers in with a crazy generous offer.

It's always been the same free trial, the same duration, that same pricing. We all pay the same amount for the same value. And as a result, if you were getting it for a dollar a month and I was paying 20 dollars a month, we have very different value profiles of what we're willing to do. So, this way, if you said, "For the price that they're charging, it's not worth it for me," that's okay because everybody who's there is there for the same reasons. So, their metrics are really clear, they know exactly who their customer is, they know exactly how their customer's going to behave, they know exactly what cost that customer is going to drive for them. And so, they're able to invest with much more confidence in the future and their investors are much more confident about the value of each new customer who comes in the front door.

Eric: And I think what the experience was is that Groupon was encouraging the opposite of the forever transaction. It wasn't building a relationship. It was like the type of person who's looking for the Groupons was just looking to just get deals regardless of if they even cared about the product they were going to get. It was almost like a waste of energy on two sides of the coin for the business owner because they would come in with this thing where they were paying less than everybody else. They would require their energy but then they wouldn't come back.

Robbie: Right, exactly. It was the wrong person. It was somebody that came in because of the deep discount and that person probably had no intention of staying. And in subscriptions, the most important thing is if I get them in the front door, how long are they going to stay?

Eric: Yeah. And with the Movie Pass thing also brought up this strategy of losing money on the front end which they were really going for. They were all the way on one end of the spectrum. But with a subscription model, it's okay to do this, right? It's okay to intelligently and more effectively say, "Okay, it cost me this much to acquire a customer. I know that my onboarding is such and that my relationship building is such that this person's likely going to be with me for this time. So, I'm willing to be in the red for a little bit with this person for a few months before I'm profitable."

Robbie: Exactly. And a really good example of that, it's so important if you're building a membership and you have high up-front acquisition costs, it's so important to know how long they're going to stay and a really good example of this is Blue Apron, the meal kit company. Where the cost of acquisition was very high, right? Because they were giving away a certain number of free meals and so then they're covering both the regular marketing costs plus the cost of the food plus the cost of the shipping. So, they needed to have people, it was something like, "We needed somebody to stay for seven months in order to make a profit," people were staying for, let's say, six months. This isn't quite exactly right but I'm just simplifying. So, even though you might say, "Wow, they're getting customers to stay for six months. That's amazing." They were losing money on every one of them because of that really generous offer up front.

So, you have to know how long they're going to stay and especially in this case, back to your Groupon point, I knew a lot of people who would say, "Oh, Blue Apron's giving away four free meals. I'm going to do that and I'm going to enjoy those free meals, I'm not sure that I'm really going to stay." And some of them I know did stay just like some people signed up at Disney+ for Hamilton and thought they were going to cancel and then saw all the Disney princess movies and the National Geographic stuff and said, "Oh, maybe I'll stay." But a lot of people come in, they have a plan to come stay for the thing they want and then get out. And you really want to avoid that unless you really understand the economics."

Eric: Right. Or you have deep pockets like Disney.

Robbie: Or you have a different game that you're playing, right?

Eric: Right.

Robbie: In their case, first of all, they knew that a lot of people would stay. Second of all they removed the free trial before they launched Hamilton so you couldn't get it for free. You had to pay at least one-month fee plus their variable costs are very, very low on each additional person who watched it. It's not like they were mailing us something. That had already incurred the cost. So, very different situation, a lot less risk than like a Blue Apron might have.

Eric: Now, did Blue Apron have to do that because it kind of sounds like maybe they were thinking that people weren't used to getting meals delivered to them in this way and maybe they were basically creating a market. Was that the reason why that happened?

Robbie: I think that's what they would say is part of it is that they needed to create the market and part of it was you talked about overcoming objections, I always say a free trial is great when your prospect either doesn't understand your value or doesn't believe you. So, if I tell you that I have the most delicious cookie in the world and that's why I'm charging 10 dollars a cookie, you might say, "I don't believe that your cookie is any better than the cookie I can make at home." And I say, "Well taste it." And you say, "Oh, you're right, Robbie. That is such a good cookie. I will pay you 10 dollars." I give you a tiny taste to prove it.

Or I give you the free trial because I say it tastes exactly like a cookie but also feels like butterfly wings. And you're like, "I don't understand how a cookie can feel like butterfly wings, Robbie. That's so weird." And then I say, "Try it and you'll know what I mean." You say, "Oh, that's so interesting." So, if your business models needs... either people don't believe or don't understand, then you probably need to give them a taste, but you also want to make sure that the taste is very, very small so that they're still hungry. And also, if you have real cost of giving somebody a taste, you want to make sure that you're only giving tastes to people who have the ability and the willingness and the interest to pay, that are already pre-qualified.

My personal feeling about Blue Apron is that they weren't really pre-qualifying people. In fact, some people were making the rounds of all the meal kit companies and trying everything. They didn't exactly know who their best customer was so they couldn't even target it at whether it's a young couple who doesn't know how to cook and wants to cook together and learn versus somebody who knows how to cook and wants something more convenient versus someone who's on a diet and wants to just have very simple ingredients in their house. I don't think they knew which of those they were targeting. And then on the back end, they had a lot of problems, I think with the promise which is you want to keep people for a really long time but they had a limited menu.

And so, a lot of people that I know got tired of the menu. The recipes are great but tired of eating them. Or there's this concept of subscription guilt that sets in when you're not able to get the value for what you're paying for and the feeling of waste is actually greater than the cost. So, here's an example, good friends down the street last summer, he came over to swim. His wife and kids are out of town, we were swimming, we said, "Hey, we're about to put some stuff on the grill. Do you want to stay for a burger?" And he said, "Oh, I can't because I have a meal kit in my fridge and it's about to go bad and I don't want to waste it." And the interesting thing about this story is he wasn't going to incur any incremental cost.

We were offering him a free burger so if he threw out his stuff in his fridge, either way, he wasn't going to have outlay any more money. I mean, maybe he didn't like us and didn't want to hang out with us but assuming that he did, he was missing out on a fun time with friends because of the subscription guilt of not wanting to waste what he'd already bought. And a lot of people talk about that with the meal kits that like, eh, you have them all in your fridge and then your friends invite you out and you can't go because you've got the meal kits.

Eric: It's like you've taken on a responsibility to get through these things.

Robbie: Yeah. A burden.

Eric: Well we talked a little bit about what can happen when you break the forever promise when we were talking about Movie Pass. But this can also be done right and there's an example in your book on the Miami Heat. And I love reading this because you never hear about this in the news or on the daily sports talk shows. Plus, the season ticket business model isn't exactly new and the lesson from their case study as it relates to relationship building can be applied to any business. And so, can you share a little bit about how the Miami Heat grew their recurring revenue through season ticket sales through both good times and bad times?

Robbie: Yeah. So, this is like a very big problem for a lot of what I would call hit driven businesses where the Miami Heat, some years they win, some years they don't win. Some years they have really charismatic, beloved stars. Other years, not so much. And what they often do is when things are good, they get lots of subscribers, lots of season ticket holders. And then when things are bad, all those subscription holders go away. They're not actually loyal to the business and so I think one of the things that Kim Stone there, what she realized was, "We need to treat our best members, our best fans like members."

And she said, "They come for the name on the back of the jersey but want them to stay for the name on the front of the jersey. We want them to feel an affinity and a relationship with our team, with our stadium, with being part of this organization and less focused on whether or not we win or lose because we don't control that. More focused on the journey that we're all on together, the enjoyment out of their fandom."

And so, there's this whole story. Shaquille O'Neal left the heat in the 2007/2008 season and the season tickets plummeted. And so, at that point they decided to become more fan centric and they empowered all of their customer success team members. And they really treat them like customer success members as opposed to customer support. They don't wait till there's a problem, they're not just sales people, they're empowered to do whatever it takes to delight their members. They give them all kinds of special benefits that allowed them to really maximize their enjoyment. So, we all know when you go to a basketball game or any event, it's not just about the entertainment on the floor. It's about how much of a hassle is it to park and where do you have to go with your tickets and how good is the food and do they welcome you, do they make you feel special?

And so, the Heat really focused on that and they did it when things were not going all that well and then what's interesting to note is that when things started going well again, 2010 they signed Lebron James and Chris Bosh and they became a championship contender and there was this high demand again. They didn't raise their prices. One of the things about a membership is you want to reward your most loyal fans. You want your most loyal fans to feel like, "If I make a forever transaction with you, I don't have to be on the alert to make sure I'm getting the best deal anymore. You're going to take care of me in exchange for my loyalty and my trust, you are going to be trustworthy and give me a great experience on an ongoing basis."

And so, I think that's something that almost any business can keep in mind, a lot of industries, they treat their most loyal members as if they were stupid. And I've had many prospective clients and entrepreneurs and execs come to me and say things like, "Oh, our subscribers, our season ticket holders, our members, they don't even look at how much we're charging them. They just trust us so let's make the candy bar smaller. They don't notice. What are they going to do? Let's make the newspaper have less content. We don't raise their prices but let's give our new members a lower price and we'll just keep charging our new members a higher price because they don't know."

Like AOL, right? I remember at some point there were people that were still paying for dial up and they were paying more than for DSL and for cable, the reason was that they trusted AOL, not because they're stupid but because they're like, "Well, AOL's a good company. I'm sure if there was something better they would have just moved me to it." But no. And that's really, I think, the lesson is if you want to have long-term trust, you have to merit long-term trust.

Eric: Which is very challenging to both merit and to follow through with that because you're talking about what happened when, in 2010, when Lebron James and Chris Bosh came and they didn't raise their prices. Now they totally could have, right? And it's not just one person in that organization calling the shots necessarily. I mean, there are usually meetings and you have to do the politics of the office and there was probably people saying, "We should and we shouldn't." So, it's not always so straightforward to stay the course with those things.

Robbie: No. And you bring up a really important... you were talking at that chapter 14 and you want to focus on the long-term and not sacrifice in the short term, they could have made more money in the short term. Lots of business have that happen where they either say, "Hey, we can optimize right now for short term revenue and we can hit our quarterly number by adding in this extra fee," there's a temptation to just optimize for the short term and I think what you need to understand if you want to have a long-term membership model and you want to have that kind of golden goose relationship, you have to have some self-restraint. And one of the things that I've noticed and I've been doing this a long time is a lot of closely held businesses and family run businesses are especially good at subscription because they're thinking about legacy.

They're thinking about the value of our bran for the next generation. And when you're thinking like that, the thought of optimizing and doing something a little tricky for short term revenue seems foolish. Right? Why would he destroy our brand just to get a little extra money in our pockets right now?

Eric: Yeah. And there's the economy of scale challenge too. I mean, when you're a small business and small enough where you could potentially know a certain percentage of your customers or have talked to them personally, that's one thing. But then if you're a kind of international brand, we all probably have experienced horrible service with telephone companies or cable companies, it's kind of notorious. You almost come to expect it. It's a totally different challenge to maintain authentic relationship in a growing business and I've noticed just in the small amount of growth that I've experienced in my own business from the days of 100 or less customers to dealing with thousands of customers, you have to bring in understandings and working with technology and teams of people and the idea that it's not all in one person's head anymore.

In the beginning for me, I had the relationships with everybody. So, that's easy. It's just how I deal with people. But then as everything grows and I'm not personally involved as much, it becomes more of a culture and an ethic focus of the company and it becomes more about meetings and indoctrinating people who come into the company of what's our mission and all this stuff, it's a lot.

Robbie: It is and I think you bring up an interesting point about the indoctrination. It's the indoctrination and it's also that support in the rough moments like, "Okay, are we going to hit our quarterly number or are we going to do right by our customers? And am I going to give my employees... I know that I can trust myself to say to this customers, you know what? I'm going to give you a break here. You know what? I'm going to treat you like a member there because I know that the long-term payoff justifies it but do I trust my team members to make those same decisions or do I worry that if I give them too much latitude, they won't use their judgment in a way that I would have?" So, you have to really have a lot of trust in your team.

Eric: Right. And that's kind of what you know in most of my worst customer experience situations where I've been on the receiving end is I'm dealing with somebody who I know is not empowered. It's basically like I'm very good at honoring my contracts as a customer and sometimes things don't work out like, "Oh, a deposit didn't come in before a transaction was supposed to go out. And every eight months or so there's a payment that's missed." And I'm like, "Okay, dealing with a person, another human, they would understand this." So, you get on a phone with a person but yet they're like, "Oh, sorry, we can't do anything about that." But you know as a human they understand it and if they were empowered they would be like, "Oh, yeah, yeah, totally. I look at your history here, this is obviously whatever."

And the thing is about disempowerment is at a certain point, they just get into a habit of not even thinking. They're just kind of robotic at that point because there's only so often you can feel the desire to want to take care of somebody but not be empowered to do it. You kind of have to stuff the feeling to want to do it in order to keep your job.

Robbie: Yeah, exactly. So, well said and there's so many businesses where you just know the person you're dealing with has turned off their humanity because it's just in conflict too much with the reality of their job. And they'll often say something to you like, "Well, it's not me, it's the company." And you're like, "From my perspective you are the company. And you're telling me now." Then they stop being empathetic and they just say, "Company policy says no." And like you said they lose their humanity and not only is that horrible customer experience and terrible for building loyalty, engagement, trust, return visits. But it's also really bad for retaining employees for getting the best out of the employees because people love to be part of a mission and they love to feel like they're empowered to deliver on that promise. And when things are consistent, when they don't line up, I think they turn off their humanity or if they're able, they look for another alternative, a different job.

Eric: Now, because I know people will be listening to this and they'll definitely have ideas about, "Okay, what are the things I can do to kind of see my product or my offering more as the outcome." I get the sense that some people have a tendency to overdo it and feel like they need to give way too much kind of like bribe people to stay with them. And put themselves in a position where what they're offering to deliver an outcome is unsustainable. Do you think that this is a possibility for people and if so how can they avoid it?

Robbie: I always say when you move to a subscription model, you want to think about what is that promise that my customer wishes I would make to them? So, instead of saying, "I'm going to sell you a white blouse." Saying, "I'm going to help you look professional all the time," right? And then you say, "Well what's the best way to deliver on that promise and to whom am I delivering and what is a price I can charge where both of us think there's more value? That it's a good value for both of us?" So, with Amazon, for example, Amazon Prime, a lot of people who subscribe to Amazon Prime couldn't even tell you what they're paying. They're like, "I don't know, 89 dollars a year? 99 dollars a year? 79? 100? I don't know. Something like that. I mean, I use it so much I would never cancel."

Because they're getting so much value out of it but at the same time, you want to be sure on the company side, there's sort of two ways of looking at it. Even the heaviest of users are still profitable to the ones who use your product the most aggressively or that the mix of people is going to even out over time and that requires you to really understand your audience and how they usage spread is going to vary. So, for example, with a Netflix, when they were doing three DVDs out at a time, you might say, "Well a new subscriber might be like, okay, I'm not going to go to work for two weeks and I'm just going to watch as many movies as I can and flip them around as fast as I can so I can watch..."

Maybe I do eight flips and the steady state is maybe three movies in that time period. But Netflix knew that that person had a whatever, 80-something percent or 90-something percent chance of staying and if that they stayed for one month, they were going to stay for 30 months or whatever it is, and so they were okay with that heavy usage. But if you're just starting out and you don't know what people's usage is going to be and you give away too much, it's very hard to pull back. What I usually advise is if you're worried about pricing too low and having real costs and kind of pricing too low for those costs, start with a higher price. No one's ever going to be mad if you lower the price, right? So, start high and then see if people join and then as you have a better understanding of their behavior and you're more confident, you can lower the price.

Eric: That makes a lot of sense. I'm actually inadvertently doing an experiment in my life right now with the business. I ended up starting an online course for how to brew tea in a gong fu style. And it kind of just came out of nowhere but the reason it's an experiment is because the way that I make a living is through my software company and so I'm not putting any expectations on this business to do anything. And as I'm going through it, I'm realizing how beneficial that is to not have the expectations, to not have the pressure on because I'm realizing if it was there, a number of decisions would be different about how I approach things because originally, I just make the course and I was like, "Okay, I'm going to sell the course."

But then I ended up sourcing tea and selling tea and then I was like, "Wait a second, maybe this isn't even about selling the course. Maybe this is about me having an annual subscription where it's about curating tea for people and the course you just get for free. I'm just illustrating on how going through it in an organic way without pressure and engaging with the people who actually engage with me as customers, the business seems to be working itself out and things seem to be moving on their own but I also noticed that if I was pressured and I was trying to hit certain numbers or make a certain amount of revenue, I would be resistant to those messages.

Robbie: Yeah. It's really interesting. So, there's a couple thoughts that come to my mind. One of them is that when you're launching any kind of new initiative, any kind of membership, let's say. It's very important to say, "Why am I doing this and what are my goals." In your case, you might have said, "Well my goals are I want to share this expertise I have that's been very valuable to me." Or maybe you're saying, "Hey, selfishly I want to meet other people that are like minded so I'm going to put this out there as a way of building a community that's going to be valuable to me." Or you say, "I have a long lead time and eventually I need to make money from this but I don't need to make money right away. Right now, I'm just learning and I'll see where it goes." This is more for the entrepreneurs who are listening, understanding which one you are is going to have a great impact over the flexibility you have to create something really powerful.

Eric: I feel like there's more to that. I feel like that statement is very profound.

Robbie: Thanks. I was listening to you and I'm thinking about this like, well, some people say "This is it, I'm going to build a tea business and if it doesn't make money, I have to go back and get another job because I'm not going to make my mortgage payment." And some of those people can still come up with some really valuable because that kind of mindset, what's great about that mindset is that you are 100% focused on delivering value, right? Because you're like, "I have to have something that's worth paying for." And so, you learn very quickly what people are willing to pay for. And as you pointed out, there's different risks because the risk for that guy is he might or she might do something that is... I don't want to say unethical but very short term oriented.

"I'm going to sell you something, I'm going to oversell and under deliver because once I've got your money, I can pay my mortgage." But on the other hand, hopefully they're wise enough to know that they're trying to build something sustainable. Whereas your case where you say, "Well, I don't need the money maybe ever because I have a day job," you might never get serious enough about your membership that it's worth paying for.

Eric: Yeah, that is a risk, yeah.

Robbie: You did, right? You did because you have that business person's mind in the back and you're like, "Okay, well I'm giving this away or I have a low price but I'm noticing that people are becoming more interested in what I have. And they're asking for more and they're guiding me to build this business." And so, you were listening for that and I am sure it's probably kind of your innate entrepreneurial spirit that you were hearing that and kind of following it in an intuitive way.

Eric: Yeah, I'm not sure what it is but I reflect back on the beginning of how MemberMouse started too and I don't know if this is an entrepreneurial spirit or what but I noticed that the things that I end up doing, there's a lot of resistance to them in the beginning. Before I started MemberMouse I was adamant that I didn't want to start a software company. Before this doing this tea thing I was adamant that I didn't ever want to deal with a business that had to deal with physical fulfillment. And so, many other examples out of business too. So, I'm not sure exactly what the entrepreneurial spirit is. Maybe it's the thing that allows me to push through the resistances maybe.

Robbie: Yeah, oh, that's interesting. It's interesting to explore what the... I mean, this is now getting very, I don't know, spiritual/psychological but it kind of goes back to this idea of really knowing what you're in it for and listening to say, "What am I afraid of or what am I worried about?" My husband laughs at me because I'll tell him my worries and then as I'm telling I'm I'll realize what's really going on. He's like, "I'm so brilliant, right? All you have to do is talk to me. I don't even have to respond."

Eric: But it is interesting. We say, "Oh, we're getting spiritual." Or we could say that. But the thing is, the processes of the way of breaking down something, it's the same when you're doing it in the board room of a Fortune 100 company, you're going through the same process but your terminology, the language you use is different, the way that you present it to the audience is different. Maybe in that situation you needed a PowerPoint deck whereas in this situation you can just have conversation. It's interesting because I think there are similarities about how the solutions come is this process of even what we were talking about in the beginning about finding the outcome, pitching the outcome and not the product. That's a process of introspection, you have to look at things and that may be a spiritual process for one person or for a company it may be a different type of formal process with timelines and project management. But ultimately, you're trying to get to the same place.

Robbie: Yeah, that's so true.

Eric: So, as we wrap up, what takeaways are there here for online entrepreneurs and business owners and what advice would you give to them?

Robbie: I think that the biggest piece of advice that I have is that if you focus on solving an ongoing problem or achieving an ongoing objective for your customers and you know who those customers are and you know what they're trying to do and you optimize your offering to best align with their journey. You're going to find so many ways to layer in value for them that you can't help but be successful.

Eric: That sounds great. And certainly, I highly recommend people who have resonated with this conversation to grab a copy of your book because we've only scratched the surface. I mean, I hinted at some of the case studies and examples that you cover in the book but there's plenty more in there. And the case studies, I'm glad that we got to talk about a number of them, some of them were in the book, some of them weren't because there's really a lot of lessons to be learned from seeing how other situations have played out for other organizations and people. And I think that that's one of the real values of stuff that's presented in the book.

Robbie: Yeah, thanks. I really tried in both of my books to put a lot of case studies in and a lot of different kinds of organizations from the solopreneur, subject matter expert, to the digital native software companies and digital content companies to really traditional businesses and nonprofits and associations and big public companies because, two things, one is I wanted to show how applicable this approach is to almost any organization. And also, because there's so much goodness that you can get by looking at organizations in really different spaces. You just get these ideas that you wouldn't have otherwise connected the dots on and looking at your closest competitors is not usually, I would even say, not usually the best say to leap forward.

Eric: Yeah. I would agree with that. And so, where can our listeners learn more about you and your book?

Robbie: They can come to robbiekellmanbaxter.com, which is my website. There's lots of goodies. If they go to robbiekellmanbaxter.com/audience, I have some goodies there, a free chapter of the book, membership manifesto and some process visual slides that they can download. And you can find the books, Membership Economy and The Forever Transaction pretty much anywhere that books are sold.

Eric: Great. And we'll include for people listening to this on the road, don't worry about getting in an accident or writing it down, we'll put this all in the show notes. So, thank you, Robbie, so much for joining me again. It was so great to reconnect with you.

Robbie: Oh, it's been a real pleasure!

OUTRO:

Thank you so much for listening to this entire episode of our podcast.

I sincerely hope you enjoyed my conversation with Robbie and are excited to put what you learned to work in your own business.

I'd like to extend my gratitude to Robbie for coming back on the show and sharing so freely from her years of experience.

To get links to all the resources we mentioned in this episode, you can head on over to SubscriptionEntrepreneur.com/157.

There you'll also find the complete show notes and a downloadable transcript of our conversation.

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Thanks for being here and we'll see you next time!